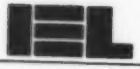
Industrial
Estates
Limited

The Nova Scotia
Crown Corporation
for the Development of
Secondary Industry



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Annual Report
for the
fiscal year ended
March 31 1985

DIRECTORS

F.T. Barber
J.L. Bragg
F. Cosman
J.J. Grant
S.M. Hickey
G.C. McDade
J.D. McNiven
K.A. Mader
R.W.M. Manuge
J.E.A. Nickerson
W.S. Robertson
L.R. Shaw
W.L. Single
D.M. Smith
F.T. Stanfield
Hon. R.J. Thornhill
R.F. Weary

ADVISORY COUNCIL

Purdy Crawford
Lord David Garnock
H. Gordon MacNeill
Malcolm McAlpine
C. Peter McColough
Sir David Nicolson
John A. Scrymgeour

OFFICERS

President	W.L. Single
Vice President	W.D. Ring
Secretary	S.M. Henman
Assistant Secretary	F.M. LeTourneau
Controller	P.G. Budreski

AUDITORS

TOUCHE ROSS & CO.

REPRESENTATIVE OF THE PROVINCE OF NOVA SCOTIA

HONOURABLE R.J. THORNHILL

Minister of Development

June 24, 1985

Hon. Roland J. Thornhill
Minister of Development
Province of Nova Scotia
Suite 1001
5151 George Street
Halifax, Nova Scotia

Dear Mr. Minister:

I am pleased to present on behalf of the Board of Directors of Industrial Estates Limited our 28th Annual Report including the audited financial statements for the year ended March 31, 1985.

During 1984, many of IEL's clients experienced an increase in sales and profit compared to 1983. However, the growth was not large enough to require companies to increase their manufacturing capacity. This resulted in IEL experiencing a significant decrease in requests for financing. During the year, the Board of Directors approved financing for seven projects totalling $2,304,624. These projects will create or maintain 350 jobs.

Among the projects approved for financing is BPJO Radiator Plastics Limited to establish a plant in Debert to fabricate plastic radiator tanks for the automotive aftercare market and K.B. Electronics Limited to expand its Beford facility to house new equipment, which it will use to conduct research and development programs. The company manufactures electronic equipment and power supplies for converters.

During the year, the former Acadia Landings property in Lunenburg was sold. We were also able to preserve employment in Country Harbour Hardwoods while searching for new investors and have recently approved the sale to M&M Manufacturing Co. Ltd. of the former Stangate Weld-All facility in Dartmouth.

New investment is down significantly in 1984. Many companies are still operating below optimum capacity and, during the recent recession, saw their equity eroded and their debt load increased. While there were fewer applicants for new financing in 1984, the need continued for assistance to existing client companies which experienced difficulties as a result of the previous down-turn in the economy. It was these companies that required most of the energies of management and staff. Although this represented a tremendous investment in time, we were able to achieve positive results at very little additional cost. In terms of direct benefits to the Province, approximately 800 manufacturing jobs were saved.

The accompanying financial statements reflect a change in accounting policy to record provisions for losses in excess of that permitted within the operating grant from the Province. Previously, this excess was disclosed by way of note to the statements.

Losses have reduced dramatically this year reflecting the improvement in economic conditions. The very nature of our mandate dictates that losses on industrial development projects will increase substantially in difficult economic times when greater risks are taken to maintain and create jobs and this sometimes results in criticism of the decisions made by our management and Directors. Nevertheless, we who work in development corporations accept the fact that the decisions we make today in the face of all the unknowns of the future will be judged tomorrow with all the benefits of hindsight.

INDUSTRIAL PARKS AND MALLS

Except for the completion of an industrial mall and a small industrial subdivision in Liverpool, major construction activity tapered off significantly in IEL's thirteen industrial parks this past year. Some design work has been carried out to expand the serviced areas of certain parks, but construction has been postponed until the number of sales increases.

Sales do appear to be on the upswing in some of IEL's industrial parks, especially in Sackville where a second, privately-owned, multi-tenant industrial building is now completed, in Bedford's Atlantic Acres industrial park, and in Kentville's Annapolis Valley industrial park. Sales have also taken place in IEL's parks in Amherst, Debert and Windsor.

In the Woodside Ocean Industries Park, IEL's new waterfront facilities have played a significant role in supporting a broad range of off-shore related activities including the on-going special program carried out by Mobil Oil in capping Well N-91. As well, a new industry, Woodside Fabricators Limited, has established on a waterfront site leased from IEL.

Another sign of the modest economic upswing has been IEL's success in selling or leasing a number of empty buildings to such companies as Atlantic Industrial Distributors, Acadia Industries, Crockett McConnell and Kohler International.

Twenty-three small Nova Scotia companies are operating in IEL's six industrial malls turning out products as diverse as pharmaceuticals, machining, packaging materials, hydraulic turbines and knitwear. A contract has just been awarded for a seventh mall, in Stellarton, which will be ready for occupancy this fall.

The following is a comparison of the significant information in the financial statements between the years ended March 31, 1985 and 1984.

	1985	1984*	Increase Decrease
Total Investment in Industrial Development Projects	$112,190,528	$127,338,560	$(15,148,032)
Twenty Year Debentures issued to Province of Nova Scotia	89,719,248	107,918,720	(18,199,472)
Equity owned by Province of Nova Scotia	21,445,995	14,589,553	6,856,442
Income, including Industrial Parks Revenue	12,006,872	13,030,404	(1,023,532)
Interest Expense	10,770,791	12,303,951	(1,533,160)
Administrative Expenses	714,234	648,731	65,503
Industrial Park Expenses	818,245	707,580	110,665
Provisions for Losses on Doubtful Accounts Investments and Unrecoverable Expenses on Foreclosed Investments	1,175,583	8,821,132	(7,645,549)
Deficit from Operations	1,471,981	9,450,990	(7,979,009)
Covered by cash grant from the Province of Nova Scotia	1,008,188	886,665	121,523
Unfunded provision for losses	463,793	8,564,325	(8,100,532)

*Restated

DIRECTORS AND STAFF

There were no changes in the composition of the Board of Directors. During the year, the Directors held 10 Board meetings. I note with sadness the passing of a former Director of Industrial Estates Limited, D.L. Durkee. Mr. Durkee served on the Board for three years and his contribution was very much appreciated.

ACKNOWLEDGEMENTS

IEL's appreciation is extended to the Department of Development and to the Department of Finance with whom we have a close association and who have provided us with valuable assistance. We would also like to thank the Federal Department of Regional Industrial Expansion for their cooperation.

I also wish to express my appreciation to the Directors, Officers and staff for their support during the past year. Mr. Peter G. Budreski, C.A., Controller, resigned to accept a position in private industry and we will miss his contribution.

OUTLOOK

Although the investment climate improved slightly in 1984, I believe that we will need another two to three years of steady improvement before there will be any significant increase in new plant and equipment investments. There are, however, some positive factors which are emerging in 1985 which could generate some activity. Interest rates have been dropping and recent changes by the Federal Government in the Foreign Investment Review Agency will make it easier for foreign companies to establish plants in Nova Scotia. Despite the timetable for the Venture Gas field being advanced to 1990, there have been a number of events which look encouraging for 1985. Nova Scotia companies are well-positioned to take advantage of these opportunities as they develop.

I am cautiously optimistic that we will see a modest increase in new manufacturing investment during the coming year, particularly in the area of modernization and equipment replacement.

Respectfully submitted on behalf of the Board,

W.L. Single, P.Eng.
President & Chief Executive Officer

SUMMARY OF FINANCIAL HIGHLIGHTS

	1985	1984*	1983*	1982	1981	1980
Investment in industrial development projects	$112,190,528	$127,338,560	$140,413,303	$134,952,044	$139,408,252	$135,191,220
Debentures issued to Province of Nova Scotia	89,719,248	107,918,720	125,692,711	123,974,990	132,051,410	130,577,210
Income, including industrial parks revenue	12,006,872	13,030,404	12,511,928	13,332,048	12,942,233	11,330,347
Interest expense	10,770,791	12,303,951	11,790,736	11,777,079	11,236,770	10,405,513
Operating expenses	1,532,479	1,356,311	1,322,331	2,185,948	2,267,411	2,025,666
Provision for losses on doubtful accounts and investments and unrecoverable expenses on foreclosed investments	1,175,583	8,821,132	2,235,325	645,921	816,845	862,823
Deficit from operations	1,471,981	9,450,990	2,836,464	1,276,900	1,378,793	1,963,655
Covered by: Cash grant from the Province of Nova Scotia	1,008,188	886,665	570,781	1,276,900	1,378,793	1,963,655
Unfunded Provision for losses	463,793	8,564,325	2,265,683	—	—	—

*Restated

AUDITORS' REPORT

The Shareholders
Industrial Estates Limited

We have examined the statement of financial position of Industrial Estates Limited as at March 31, 1985, and the statement of income for the year then ended, and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, and as shown by the books of the company, these financial statements present fairly the financial position of the company as at March 31, 1985, and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting policy referred to in Note 2 v) to the financial statements, on a basis consistent with that of the preceding year.

TOUCHE ROSS & CO.
Chartered Accountants

Halifax, Nova Scotia
June 14, 1985

STATEMENT OF FINANCIAL POSITION
as at March 31

	1985	1984 (Restated)
ASSETS		
Cash and short-term investments	$ 320,070	$ 176,453
Accounts receivable and accrued interest	1,170,490	1,820,319
Furniture, leasehold improvements and equipment (Note 2a)	100,932	93,255
	1,591,492	2,090,027
Industrial Development Projects		
Industrial parks and buildings (Note 2b)	21,614,037	18,955,459
Leased plants (Schedule 2) (Note 2b)	13,824,264	19,108,548
Advances secured by mortgages, bonds and debentures (Schedule 2)	63,174,201	78,990,123
Shares of client companies (Note 2b)	2,150,075	2,150,077
Foreclosed investments (Note 2b)	11,427,951	8,134,353
	112,190,528	127,338,560
Provision for losses on Industrial Development Projects (Schedule 2) (Note 2v)	13,460,780	13,503,600
	98,729,748	113,834,960
	$100,321,240	$115,924,987
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued charges	$ 345,566	$ 1,305,182
Accounts payable - Province of Nova Scotia	33,585	37,620
Unexpended amounts pending completion of realization of foreclosed assets	70,647	98,920
Debentures payable - Province of Nova Scotia (Note 4)	89,719,248	107,918,720
Unfunded provision for losses on Industrial Development Projects (Note 2v)	(11,293,801)	(10,830,008)
Advance by Province of Nova Scotia (to be settled by issuance of preferred shares)	—	2,805,000
Capital stock (Note 4)	21,445,995	14,589,553
	$100,321,240	$115,924,987

Commitments and Contingencies (Note 5)

On behalf of the Board
G.C. McDade, Director
K.A. Mader, Director

STATEMENT OF INCOME
for the Year Ended March 31

	1985	1984 (Restated)
Income		
Interest, dividends and portion of rent applied to income	$11,188,627	$12,322,824
Industrial parks (Schedule 1)	818,245	707,580
	12,006,872	13,030,404
Expenses		
Administrative (Schedule 1)	714,234	648,731
Industrial parks (Schedule 1)	818,245	707,580
Interest on debentures and promissory notes	10,770,791	12,303,951
Provision for doubtful accounts	200,755	18,856
Provision for losses on investments (Schedule 2) (Note 2v)	676,536	8,234,783
Unrecoverable expenses on foreclosed investments	298,292	567,493
	13,478,853	22,481,394
Deficiency for the year	$ 1,471,981	$ 9,450,990
Grant from Province of Nova Scotia	$ 1,008,188	$ 886,665
Increase in unfunded provision for losses on Industrial Development Projects (Note 2 v)	463,793	8,564,325
	$ 1,471,981	$ 9,450,990

NOTES TO THE FINANCIAL STATEMENTS
March 31, 1985

1. General Policy

The company's primary objective is the creation of employment opportunities through development of secondary manufacturing industry in the Province of Nova Scotia. The financing provided to clients is often in excess of the amounts which would be available through commercial financing sources.

2. Significant Accounting Policies

a) Furniture, Leasehold Improvements and Equipment

Furniture, leasehold improvements and equipment are valued at cost less accumulated depreciation. Depreciation is provided as follows:

Furniture, leasehold improvements and office equipment	- straight-line method, over three to ten years
Mobile equipment	- declining-balance method, at a rate of 30% per annum

b) Industrial Development Projects

i) Industrial Parks and Buildings

As part of its long-term industrial development program, the company has acquired a number of industrial parks throughout the Province. These parks consist of land in various stages of development from unimproved to fully developed and serviced lots. The parks also include some buildings which are mainly used as incubator malls.

The buildings in the parks are carried at cost less depreciation calculated on the straight-line method over 20 years. At March 31, 1985, the net book value of park buildings was approximately $2,500,000.

Park lands are carried at cost of acquisition plus cost of improvements, less proceeds of disposals. Most administrative and carrying costs of parks are reimbursed by operating fees and the remainder are expensed as they are incurred. As the parks are held in connection with the company's long-term development objectives, fluctuations in current market values are not recognized in the accounts.

ii) Leased Plants

Leased plants are valued at net cost.

Depreciation has not been provided on buildings and equipment owned by the company and leased to tenants. Values have been reduced by application of a portion of rentals received to the option price at which tenants may acquire these properties. The portion of rentals so applied during the year was $1,070,174. At March 31, 1985, the accumulated balance of such reductions amounted to $11,195,238.

iii) Shares of Client Companies

Shares of client companies are stated at cost.

iv)Foreclosed Investments

Foreclosed investments include amounts invested, loaned or expended by the company in connection with plants where foreclosure action has been taken, and the company is in the process of realizing on its security.

v)Provision for Losses on Industrial Development Projects

The company considers that its investments in Industrial Development Projects are subject to a possible decline in value estimated to be $13,460,780 (1984 - $13,503,600). The company has requested and received from the Province of Nova Scotia, an undertaking that should a loss be incurred by Industrial Estates Limited on realization of its investments in Industrial Development Projects in excess of the difference between the reserve of $13,460,780 (1984 - $13,503,600) and the unfunded provision for losses on Industrial Development Projects of $11,293,801 (1984 - $10,830,008), the Province will reimburse such excess.

Prior to the fiscal year ended March 31, 1985, the possible decline in value of Industrial Development Projects in excess of the provision for losses shown on the statement of financial position was not recognized in the financial statements in view of the undertaking from the Province to reimburse such losses if they were, in fact, realized. This was disclosed by way of a note to the financial statements.

During the year, the company and the Province agreed that it would be more appropriate to account for the estimated possible decline in value of Industrial Development Projects by increasing the loss provision to provide for it and disclosing the Province's undertaking as an unfunded provision for losses. The 1984 figures have been restated to reflect this change.

If the previous method of disclosing these undertakings had been followed, the following balances would have resulted:

	1985	1984
Statement of Financial Position		
Provision for losses on Industrial Development Projects	$2,166,979	$2,673,592
Unfunded provision for losses on Industrial Development Projects	$ —	$ —

Statement of Income

Provision for losses on investments	$ 212,743	$ (329,542)
Deficiency for the year	$1,008,188	$ 886,665

3. Debentures Payable - Province of Nova Scotia

Under the existing legislation, the company is permitted to borrow from the Province by means of the issue of twenty-year debentures. The total borrowings, less redemptions, may not exceed $400,000,000.

The debentures bear interest at rates varying from 7.5 percent to 15.04 percent per annum, and are to be redeemed during the period 1985 to 2005. Present arrangements with the Province of Nova Scotia provide for redemption of the existing debentures at the rate of $9,125,262 a year for the next five years.

4. Capital Stock

Authorized:
- 100 common shares of $100 par value each
- 5,000,000 Class "A", 12.75% preference shares, non-cumulative and redeemable, par value $1
- 19,990,000 Class "B", 8% preference shares, non-cumulative and redeemable, par value $1

		1985	1984
Issued:	87 common shares	$ 8,700	$ 8,700
	2,805,000 Class "A" preference shares	2,805,000	—
	18,632,295 Class "B" preference shares	18,632,295	14,580,853
		$21,445,995	$14,589,553

During the year, the company:

a) Reduced the authorized 8% preference shares from 24,990,000 to 19,990,000 and reclassified the remaining issued and unissued shares as Class B preference shares;

b) Created 5,000,000 Class A preference shares; and

c) Issued 4,051,442 Class B preference shares to the Province of Nova Scotia as consideration for expenditures on behalf of the company in connection with industrial parks. The company also issued 2,805,000 Class A preference shares to the Province in settlement of an advance.

Included in the commitments set out in Note 5 is an amount of approximately $2,120,000 representing additions to industrial parks. It is anticipated that these commitments will be settled by the issuance of additional preferred shares to the Province of Nova Scotia.

5. Commitments and Contingencies

a) The company is committed to investments in Industrial Development Projects of approximately $8,000,000 in addition to those recorded in the financial statements.

b) A former client of the company has taken action against Industrial Estates Limited and others alleging fraudulent action by Industrial Estates Limited and its agents in connection with foreclosure action taken by Industrial Estates Limited and the subsequent sale of the plant to another party. In addition to asking for a declaration that all of the assets be reconveyed to the plaintiff, the plaintiff also seeks an award of general, exemplary, punitive damages and costs. No dollar amount is set out in the pleadings filed by the plaintiff. Industrial Estates Limited has denied the allegations, has taken steps to oppose the action, and has made no provision for any liability in this matter as it does not regard the claim as having any validity.

SCHEDULE 1

INDUSTRIAL PARKS REVENUE AND EXPENSES
for the Year Ended March 31

	1985	1984
Revenue		
Rental revenue	$526,433	$387,245
Operating fees	291,812	320,335
	$818,245	$707,580
Expenses		
Property operating	$345,548	$323,898
Salaries, wages and benefits	252,449	246,419
Depreciation	161,498	78,721
Travel	11,250	10,642
Administrative overhead	47,500	47,900
	$818,245	$707,580

ANALYSIS OF ADMINISTRATIVE EXPENSES
for the Year Ended March 31

	1985	1984
Salaries and employee benefits	$445,309	$437,356
Rent	79,664	53,788
Travel	39,059	24,937
Advertising and promotion	7,440	5,033
Telephone and telegraph	27,655	25,862
Directors' fees and expenses	22,037	25,599
General office and miscellaneous	10,356	9,122
Printing, stationery and postage	12,410	9,056
Insurance and taxes	14,952	15,717
Legal and audit	16,482	21,826
Conferences, memberships and publications	11,196	9,373
Consultants' fees	20,879	6,100
Depreciation - furniture, fixtures and improvements	6,795	4,962
	$714,234	$648,731

SCHEDULE 2

CUMULATIVE ANALYSIS OF COST OF LEASED PLANTS
for the Year Ended March 31

	1985	1984
Net cost of leased plants		
Balance at beginning of year	$29,233,612	$28,850,272
Investments	799,593	413,619
	30,033,205	29,263,891
Disposals	5,013,703	30,279
Balance at end of year	25,019,502	29,233,612
Rentals applied in reduction of cost		
Balance at beginning of year	10,125,064	9,083,628
Rentals applied to reduce cost	1,070,174	1,071,714
	11,195,238	10,155,342
Disposals	—	30,278
Balance at end of year	11,195,238	10,125,064
Net cost after application of rental reductions	$13,824,264	$19,108,548

ANALYSIS OF ADVANCES SECURED BY MORTGAGES, BONDS AND DEBENTURES
for the Year Ended March 31

Balance at beginning of year	$78,990,123	$98,657,861
Investments during year	4,604,081	6,598,796
Capitalized interest	679,053	789,511
	5,283,134	7,388,307
Transfers to foreclosed investments	6,592,370	4,264,754
Repayment during year	14,506,686	22,791,291
	21,099,056	27,056,045
Balance at end of year	$63,174,201	$78,990,123

ANALYSIS OF PROVISION FOR LOSSES ON INDUSTRIAL DEVELOPMENT PROJECTS
for the Year Ended March 31

		(Restated)
Balance at beginning of year	$13,503,600	$ 5,721,185
Increase in provision during year	676,536	8,234,783
	14,180,136	13,955,968
Net amounts written-off	719,356	452,368
Balance at end of year (Note 2 v)	$13,460,780	$13,503,600